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SOME DIFFICULTIES OF PUBLIC BUSINESS MANAGEMENT.

MODERN socialism, in its practical bearings, is not so much a struggle for the extension of state activity as a protest against the uncontrolled power of the capitalist. This fact, when once clearly seen, explains a great many apparent contradictions. It shows why the socialist and the anarchist, in spite of the complete opposition of their theories, are yet found acting on the same side in many political questions. It shows why, in countries like Germany, the socialist leaders themselves are found voting against many of the socialistic measures. They are democrats in the first instance and socialists only in the second. They desire to restrain the power of vested rights rather than to give added power to a state which is already the representative of such rights.

But the protest against the power of capital has an inevitable effect in extending the functions of the state. Modern life demands organized business action. There are two great organizations, either one of which can manage it, — organized capital and organized government. If a business is taken out of the control of one, it almost necessarily falls into the hands of the other. Government officials who desire to extend their functions and influence are not slow to take advantage of this fact. The feeling against the power of capital becomes a means in their hands of extending the power of government. Every abuse of existing business methods, every failure of capital to meet its responsibilities, becomes a pretext for extending state activity. The majority of men see the abuses and feel that something ought to be done. Any proposition for a change is welcome. In a vague way they think that government action means action in behalf of the public. Capital, as Lassalle said, is controlled by a small class, perhaps not more than four per cent of

a community. The state to him represented the whole community—that four per cent and the other ninety-six also. Whether it ever can do so in actual fact is another question ; it is enough for official socialism that people believe such to be the case. A socialistic measure strengthens the hands of a government on precisely this account. Under a democracy it will secure votes ; under a somewhat absolute monarchy, like that of Germany, it may help the existing authorities against the dangers of popular agitation.

No one can fail to see an increased tendency to have organized business done by public agencies instead of private corporations. Transportation on a large scale has quite generally passed into the hands of the state. America is the only important country where the telegraph is still in private hands. State railroads have ceased to be an exception and are now the almost universal rule in central Europe, and are frequently found in other parts of the world. Nor is the industrial activity of the government confined to these broader lines. The municipalities have generally taken control of the water works and not infrequently of gas works. In short, there has been a tendency on the part of governments to assume the ownership of such industrial monopolies as lay within their reach. No one can tell where this process will stop. The character of large manufacturing industries is now developing in such a direction that they too tend to become monopolies. It is impossible to say whether the same tendency which has brought water works or telegraphs into state control may not extend itself to other lines of business when their character as monopolies becomes equally evident.

Such industries are to-day managed by representatives of the investors. Sometimes a joint-stock company elects its managers, sometimes an independent employer persuades others to entrust him with their capital. In the management of the largest concerns the two methods are usually combined. Part of the capital is subscribed by stockholders who elect their representatives, and these in turn make use of additional amounts of borrowed capital. For the purposes of the present discussion it is of little importance which of these forms prevails. In

either instance the management of business is obtained by the man who can control the capital and persuade others to entrust it to his hands.

In one sense, this is no new thing. Wherever capital has been used, production has been of necessity directed by the man who could control the capital. The peculiar feature of business to-day is the separation of the investors or capitalists as a class from the laborers on the one hand and the consumers on the other. In the trade guilds of the middle ages, industry was controlled by the possessors of the capital; but those possessors of the capital were themselves the laborers. If they were not themselves the chief consumers, they were at least in immediate personal contact with the consumers, knowing the needs and sharing the feelings of those for whom they produced. The invention of the steam engine did much to change this state of things. It made it impossible for the producer to control the machinery which he used. Factories and railroads were organized on a large scale; their operation and ownership became independent of one another. The joint-stock company was developed as a means of furnishing the necessary capital for those enterprises. With the growth of such corporations came the separation of investors on the one hand from employees and consumers on the other.

In connection with this change, the control of the enterprise was given to the investor as distinct from the laborer. It was necessary to attract capital into these channels of investment in order to secure the benefit of the new methods of production. Such capital could only be attracted by legislation which favored the incorporation of joint-stock companies. Every effort to increase the responsibilities and burdens of the investor or to diminish his control over the enterprise prevented the development of the business. This was seen in the history of the United States during the early years of the present century. Some states tried to shape their legislation so as to increase the liabilities of stockholders in corporations. Massachusetts was a notable example. But it was found that the effect of these laws was to drive capital out of Massachusetts to seek invest-

ment in New York or other states. The development of the community was retarded. It seemed a less evil to allow freedom of incorporation, with all its possible contingent danger, than to fall behind in the race for industrial supremacy. The competition of the different states with one another in the effort to secure investment of capital thus led to legislation favorable to the uncontrolled power of the investor.

The same sort of competition for investment of capital was seen in a less striking form in the different European countries. It seems at first sight a strange fact that the early corporation law of France and Germany was somewhat more liberal than that of England. Yet this is unquestionably the case; and it is explained by the fact that England had comparatively little difficulty in securing the investment of capital wherever needed, while France and Germany found it necessary to encourage the new industrial order by special inducements to investors.

While this was the motive which guided the development of corporation law in its early stages, it was not by any means the sole advantage which was obtained by the system; nor was it, indeed, the chief reason why that system maintained itself so well. The free competition of capitalists with one another secured incidental advantages to almost every other class in the community. To the consumers it gave the fullest benefit from every new method which could be applied. Improved processes were sure to supersede old ones. The scale of production was enlarged, the prices of the product fell; investors were forced to be contented with the narrowest margin of profit as a means of placing their goods upon the market. The increased sales produced an increased demand for labor, which more than counterbalanced any temporary loss to workmen from the introduction of machinery. The benefit of the improved efficiency of labor, instead of being monopolized by the capitalists, was rapidly distributed among the consumers on the one hand and the employees on the other.

This intensity of competition also furnished a kind of guaranty that the managers of capital should be fit for their positions. The man who possessed organizing talent, or who knew

how to foresee the contingencies of business in such a manner as to prevent waste of capital and labor, was successful. His competitors who had this power in less degree fell behind in the industrial race. There was a process of natural selection which prevented incompetent employers from maintaining themselves long at the head of large enterprises. The operation of this process was not by any means perfect, but in the long run it proved tolerably sure. The possession of inherited capital might give a young man a start in business; but unless he proved himself competent to manage it, he soon lost his place and its control fell into other hands. There might be temporary loss, but there could not be permanent waste and inefficiency.

The general competence of the leaders selected, and the economy in the use of capital under this system, is brought out strongly by contrast when we look at the history of attempts to manage industry in a different fashion. From the beginning of the century until now there have been constant experiments in what is known by the general name of co-operation; that is, management of industry by the producers or the consumers as distinct from the investors. The majority of these experiments have failed. Especially is this true of productive co-operation, or management by the laborers. The cases where such attempts have succeeded, like those of the coopers in Minneapolis or of similar enterprises in England and France, have been in industries requiring a small amount of capital and little exercise of speculative foresight; industries where workmen could produce for orders without large previous outlay either in machinery or in stock. Nor does it seem likely that such experiments will generally be successful, as long as their most active promoters show so little knowledge of business necessities. Much of what is said and written about the possibility of productive co-operation on a large scale involves at least one of two fallacies. One is the belief in a large fund of undistributed profits now appropriated by the capitalists. The other, which is common to almost all socialistic writers, is that labor itself is the source of value. The practical effect of this error is apt to be disastrous;

especially would it be so if the co-operators, as is the dream of so many of them, could obtain state help and state credit as a means of starting their enterprise. They claim that it would be easy for the state to borrow money on its own credit and advance it in aid of such enterprises, which may be true enough for the time being ; but it is also true that the destruction of capital by wasteful and unproductive management would render the system impracticable in the long run.

Distributive co-operation, or management of industry by the consumers, has had, on the whole, a larger measure of success. Yet even here the percentage of failure is most serious. Against the successful co-operative stores of England and the few that exist in the United States, we must place the large number of failures, soon forgotten by every one except the sufferers, but none the less disastrous on that account. Of the stores founded a dozen years ago by the Patrons of Husbandry in the West or the Sovereigns of Industry in New England, only a small number remain. It is only in a few localities that they have maintained themselves in anything like a permanent career of usefulness. In the history of almost all we see repeated the same mistakes which have been described by Dr. Bemis :

Very much such a state of things existed as is advocated by some socialists, *viz.*, an industry managed by the votes of a democracy, by far the larger part of which has contributed nothing to the capital stock. Whatever may be the possibilities of such a system, the Springfield attempt [a co-operative store of the Sovereigns of Industry] was a decided and, it would seem, an inevitable failure. Directors were elected and managers and clerks in the various branches of the store were chosen who knew nothing of the business. Carpenters and old employees of the United States Armory were suddenly transformed into managers and clerks of a rapidly growing and little understood business. Whatever economy was attempted was in the wrong direction. One thousand dollars was paid to the manager, but many thought even that too high.

Amid all this failure there have been a few instructive instances of marked success. Perhaps the most striking is that of the Manufacturers' Mutual Insurance companies. In

insurance, more than in any other business, management by consumers, if we may use that term, and management by companies of investors have developed side by side. Mutual insurance comes under the former head; speculative insurance by joint-stock corporations under the latter. On the whole, the tendency has been for the second method to supersede the first; but in manufacturers' insurance there has been a most decided exception. A number of factory owners, finding that the high insurance premiums were a burden, conceived the idea that they might by proper organization separate their own better built and better managed concerns from others where the danger was greater. They adopted a system of rules intended to lessen the chances of fire. They included in their mutual companies only such shops as would submit to those rules; and they provided for a most efficient system of inspection by which all possible means of prevention against fire should be enforced. It will be observed that their work differed from that of an ordinary insurance company. The latter tried to adjust losses and fix its premium in such a manner as to leave itself the best possible margin of profit. The mutual company, on the other hand, attempted to prevent factory losses, and only secondarily did it make a business of adjusting them. Being formed by voluntary association on the part of the insured, it was able to enforce among the participants a high degree of care and responsibility, each and all feeling a direct interest in the general object of preventing destruction by fire. More than that, the manufacturers' mutual companies have been well managed. Their members have been men whose training led them to see the importance of efficient administration and to select their officers with the utmost care. These companies thus combined in the highest degree two requisites of successful administration: far-sighted general policy and wisdom in the selection of officers.

It will be found that most other co-operative enterprises which have succeeded have shown in some degree the combination of both of these elements. The co-operative stores

England obtained their first impulse toward success from

the adoption of the cash system in their transactions ; a policy which had previously not prevailed in England and which, with the English conservative methods, could only be successfully carried out by the voluntary action of the buyers. They thus had the same kind of advantage which the manufacturers' mutual insurance companies enjoyed in this country. Add to this the fact that the managers were, on the whole, well chosen, and that their business was one which lent itself readily to democratic management, and we see a sufficient reason for the success of distributive co-operation in England. In America, on the other hand, where the cash system had prevailed to a much larger extent in ordinary mercantile transactions, there was no such advantage to be gained in general policy by the co-operative stores. Their career was thus usually a disappointment, which was often changed to actual disaster by the incompetency of those who were chosen to manage them.

From the history of co-operation two facts can thus be brought out which will be of importance in their application to government control of industry. The conditions of success in management of industry by the consumers are, first, the adoption of improved methods of business policy, and second, the assurance of wise administration by responsible officials. Both must be combined to assure the survival of a co-operative enterprise. In like manner, both must be combined to assure the industrial success of a state enterprise. Economical administration by wise officials is good as far as it goes ; but, unless it is combined with improvements in policy, it constitutes no reason for a change of system. On the other hand, liberal policy without wise administration is almost certain to result in waste of the resources of the community. Neither advantage by itself is sufficient. One must be obtained without sacrificing the other.

As long as there was actual competition among investors, it was hard for the government to hold out even the promise of any such improvement. Competition as already described seemed to insure wise policy and sound administration side by side. But as industry became more complicated, it was

found that the practical results were not quite what had been expected. Large business, concentrated in a few hands, of itself made competition difficult. It gave the directors a temporary monopoly. Competition might prevent them from exacting too high prices in the long run, but it did not prevent them from making unfair prices at certain places or certain times. Each new industrial development tended to increase this monopoly. Factories became larger, credit was extended, transportation systems were consolidated. Every such extension made it harder to find the necessary capital to enter into competition on equal terms. Control of advantageous sites or of valuable patent rights still further increased the monopoly, and made the managers of capital less directly responsible to the community.

If, on the other hand, in spite of all these things, a competing establishment was started, the result was by no means an unmixed good. Prices were now forced down to an unnaturally low level. Where competition was active, they barely paid operating expenses, without providing for maintenance or interest on capital. If such competition existed at some points and not at others, there was serious discrimination between different sections of the community. If it existed everywhere, the loss of the expected profits prevented employers from meeting their obligations and led to financial ruin. At best, there was almost always a waste of capital where several concerns tried to serve a community which could be more economically supplied by a single management.

In this way almost all the good results of free competition were rendered uncertain. As long as there was a monopoly, the community had not the assurance that prices would be low. They could not feel certain that the best processes would be adopted when the owner of a sweeping patent right could block the way against further improvement. They could not be sure of steadiness of prices or of economy in the use of capital. Worst of all, there was great danger that the wrong leaders of industry might be selected instead of right ones. Large enterprises in many instances assumed a speculative character

which brought reckless instead of conservative management to the front. Men worked for the present instead of the future. They sought to make money for the time being, at the expense alike of the community and of the investors, instead of establishing their business on a permanent basis for the best advantage of all parties concerned. These evils have been most conspicuously seen in railroad management, simply because consolidation and monopoly have developed most fully in railroad business. The same tendency is visible in every other enterprise employing large capital under concentrated management. Each new combination or trust, whatever its temporary justification may be, creates a wider possible divergence between the theory of free competition and the practice of the business world.

This change has re-opened the question of state ownership. When a private enterprise can, without immediate restraint from competition, adopt a policy which may hurt the community, a government has so much the better chance to show an improvement in this respect. Every discrimination from place to place, or fluctuation from time to time, gives added force to this demand. And when, besides this, the old system affords no apparent assurance against waste of capital or irresponsible leadership, the movement towards state socialism becomes almost overwhelming.

The advocates of state management of industry are able to point out, not merely the great evils of the existing system, but many cases, especially in European countries, where those evils are apparently avoided. They can show instances of wise and economical administration by government officials. They can also show how the state has adopted a different line of policy from that pursued by private individuals and has been apparently successful in so doing. The argument at first sight seems to be without a flaw. But what the advocates of state ownership really fail to show is the combination of liberal policy and wise administration in the same instance. This is a damaging omission. As far as it exists, it renders the argument for state management of industry totally inconclusive. However

often the two advantages are found separate from one another, they are rarely seen together. Successful administration is found, but without the more liberal policy which is the main argument for government activity. Liberal policy is sometimes found, but is almost invariably accompanied by mistakes in administration.

The first alternative is seen in much of the state enterprise of Europe. Wherever we have a taxpayers' government rather than a popular government, officials will seek to do their work under a conservative business policy, and will be held responsible for so doing. Instances of wise management in this respect are by no means rare; but they are far from furnishing the desired result, either to socialists or to the more moderate advocates of government control.

Let us take, in the first place, the case of gas works, where the argument in favor of municipal ownership is familiar to the American public from the strong and able presentation of Dr. James. Most of the facts on which his monograph was based are taken from England; only three instances of American municipal management being cited, one of which, at least, was most notoriously corrupt. His commendation of English municipal management in this industry is probably well founded; but there is not so much to justify his implication that it gives cheap gas. Yet this is a most essential point in the whole case. If it were once clearly brought before the reader that the gas works whose success is thus shown had not given cheap gas, the force of his argument would be greatly weakened. Now without going into the detail of the question, let us quote from an article on "Municipal Debt and Local Taxation" in the *Edinburgh Review* for April, 1888. The writer is by no means an advocate of *laissez faire*, nor is his line of thought one which gives him any interest in distorting the facts in either direction.

The Parliamentary returns of gas and water works are too imperfect to allow of comparison between the cost of municipal and of private management in the case of these improved industries. It is at all events open to question whether the disadvantages of municipal management

do not considerably overbalance the advantages. Town councils and sanitary authorities are destitute of the valuable experience acquired by the directors of the private undertakings. Amid the many calls on their time they have little opportunity of acquiring such experience. In their natural anxiety to obtain a profit which will result in the reduction of the rates [*i.e.* taxes] they have as much temptation as the directors of the companies to keep up their charges, *and they do, in fact, usually keep them very high*; and the wholesome check on such charges which it is one of the functions of law of an ordinary local government to impose, is absent when the consulting bodies themselves become contractors for supply. While then the capital invested in these works is partially self-supporting, and cannot be all regarded as adding to the burden of debt, there is good reason to conclude that the general wealth of the country is diminished, as to its earning power, by the transfer of gas and water works to the local authorities.

This is of course only an opinion, but it seems on the whole a more impartial and trustworthy opinion than those quoted by Dr. James. In any event, the facts with regard to economy, public and private, of gas works, are in rather incomplete shape, owing to the enormous difficulty of comparing either prices or service in different localities. Let us pass to another industry, which may be taken as a type of those managed by the general government as distinct from municipalities, and where the returns are at once more complete and more valuable for comparison. We refer to the case of railroads.

Government railroad enterprise has passed through two stages. Down to about 1873 it was usually managed in competition with private railroads. In some countries this remains the case at the present day, except so far as pooling arrangements have rendered such competition illusory. Under such circumstances, the differences between the management of the government roads and that of its private competitors is usually slight. State railroads are administered with a view to their financial results. They are run on business principles in the narrower sense of the term. They have the same stimulus to efficiency which is felt by private lines; but they also are liable to the same abuses in the way of discrimination in

rates, and they usually carry such abuses quite as far as their private competitors. Such facts are clearly shown by every investigation and are fully acknowledged by the advocates of state ownership. Prince Bismarck himself, we believe, referred in one of his speeches to the time "when our state roads were simply private roads, owned by the state." An administration will not be willing to lose money on its own roads when private competitors are making money. The latter have, to a large extent, the power of dictating the policy of the former. To make state railroads independent, it is necessary to have state railroad monopoly.

When this is once secured, many of the evils of unrestrained competition are avoided; but they are avoided in virtue of the monopoly rather than on account of the government ownership. There is comparatively little local discrimination, because there is little inducement for it. Rates are arranged in more systematic schedules, because the disturbing elements are avoided. But the general policy of the state railroads, under such circumstances, instead of being more liberal, becomes less so. Deprived of the stimulus of competition, they cease to extend their facilities. They make a good profit, but it is by the avoidance of anything like unprofitable business. Instead of doing more for the people, they actually do less.

Let us take a few instances for comparison, not so much in the matter of rates, for this is a question where the different traffic conditions and different business conditions of the separate countries are a disturbing element, but in the matter of service actually rendered.

First, as to its amount. It will be found that on the state railroads of Germany the train service per head of population is less than half what it is in Great Britain, and little more than one-third of that in the United States. This fact, so far from being explained by the denser population as compared with America, is rendered all the more remarkable on this account; for a comparison between different parts of the United States will show that the denser population should have more *per capita* train service instead of less. The less adequate service is the

price paid for the adoption of a monopoly with a system of schedule rates based on other than business principles.¹ The German government makes a profit on its roads at rates of carriage which are in some instances apparently very low, but it does it by refusing to do unprofitable business. It secures economy, not in connection with the popular advantages which are ordinarily expected from state ownership, but by sacrifice of them. Any person having so complete a monopoly as to choose what business he will do, can make a satisfactory rate of profit by the exercise of ordinary economy; but the failure to develop business is a most serious price for the community to pay.

This absence of development is thrown into still clearer relief by some investigations of Mr. T. C. Farrer with regard to German and English train service.² These investigations show

¹ It should be said in fairness that France has little more *per capita* train service than Germany. The smaller amount is the result of the monopoly and the schedule rates rather than of the government ownership as such. All that it proves is that German government ownership has sacrificed much of the advantage that we have attained in America in connection with the somewhat unrestrained use and abuse of free competition. See *Bulletin de l'Institut international de statistique*, III (1888), 2, p. 31.

² Published in a letter to the *London Times*, dated October 18, 1887.

—	Mileage distance by shortest route.	Number of Trains.		Average time per train, all routes.		Speed in miles per hour.		Third-class fare, in peace, per mile.	
		1881.	1887.	1881. h. m.	1887. h. m.	1881.	1887.	1881.	1887.
Leeds and Edinburgh . }	211	18	{ 20 (all 3d class) }	6 13	6 6	35.7	36.3	.90	.90
Hamburg and Berlin . }	177½	15	{ 14 (6 not third) }	6 39	6 40	30.3	30.3	.84	.84
Briston and Newcastle * }	297	11	{ 13 (all third) }	11 50	10 30	25.	28.3	.98	.98
Cologne and Magdeburg }	271	12	{ 12 (4 not third) }	10 11	10 12	27.8	27.7	.95	.95
Edinburgh and Aberdeen }	126	18	{ 19 (all third) }	5 57	5 26	26.9	29.4	.92	.92
Cologne and Frankfort }	138	16	{ 16 (8 not third) }	6 8	5 49	22.5	23.7	.76	.84

* Not including nine trains *via* London.

that the development in railroad service in Germany, beginning with the year 1881, when the government control of the railroad systems became tolerably complete, has been in some respects at an actual stand-still. While the English railroads owned by private companies, with the moderate remnant of competition which still remains, have been increasing their service without increase in their fares, the German service which, at the beginning of the period, was not equal to the English, has tended slightly to decrease, and the fares on one of the routes compared have actually risen. It will be observed that the routes are selected with scrupulous fairness; some of the best services in Germany being compared with what are very far from being the best in England. In the light of these figures, we can agree with Mr. Farrer in saying:

It is a pretty clear proof that as regards passenger business, though there is always at first an apparent harmony in unified management with reference to local train connections, joint stations and other similar details, the real advantage in getting about a country, to wit, quantity and speed of trains, is neglected, and routine takes the place of elastic administration.

This comparison is developed with the same general result in other respects, to which we have no room to do justice by full quotation.

As long as government is managed by representatives of vested interests, whether property owners or others, state ownership of railroads has not provided a substitute for the stimulus of competition. As was said by the Italian commission a few years ago, the state is more apt to tax industry than to foster it, and in so doing it is more omnipotent and less responsible than a private corporation.¹ Such is the almost inevitable result of government monopoly. Even in those

¹ The candor of the conclusions of the Italian commission has been questioned by Mr. Simon Sterne (*Quarterly Journal of Economics*, July, 1887); but inasmuch as the evidence brought forward by him is anonymous, and is confessedly that of parties engaged in a scheme to overreach the government, it will hardly be considered as weighing against the responsible statement of a body of men known throughout Europe for their intelligence and their character. It was somewhat surprising that

private enterprises which have become most fully concentrated, there is always some remnant of competition, actual or possible, which stimulates them to improve. The effect of government monopoly is to take away this possibility. The economy which they seek is economy in use of their old plant and old methods; not the profounder economy of serving the community liberally, even at an actual temporary loss.

On the other hand, there are unquestionably instances, even in the narrower sphere of industrial enterprise, where government has sought to pursue a wiser and sounder policy than private companies, and has taken broader public interests into view. The case of telegraph administration in England is an instance in point. About twenty years ago, the English government purchased the telegraph lines from a number of independent corporations which had hitherto served the public more or less indifferently. There were at first serious losses. Afterward a better showing was made, and of late the rate of telegraph service in England has been so greatly reduced as to form a most unquestionable advantage to large sections of the community and give a strong argument to the advocates of a government telegraph in the United States. Additional weight has been given to this argument by the short-sighted policy of our telegraph and telephone companies. The Western Union has in times past not been wise enough to preclude competition by reducing rates, but has accumulated a surplus which formed a positive temptation to the building of parallel lines. The Bell Telephone company, by its control of patents, has positively stood in the way of certain improvements; preventing the country from utilizing the progress of invention for fear that some of the corporation's old plant would not be used up. In each instance the evils of monopoly have been seriously seen and felt, and have turned men's minds in the direction of

a lawyer of Mr. Sterne's high reputation should have asked for a re opening of the case on a basis like this. It was still more surprising that he should ask that the responsible evidence should be coolly set aside in favor of the irresponsible. Under the circumstances, I have no hesitation in giving the conclusions of the commission as on the whole representing the most impartial as well as the most careful investigation of the subject.

government ownership. The case of England is cited as an example for us to follow with advantage. But a careful investigation of the facts seems to show that the telegraph economy of the British government is certainly no better than that of the Western Union, and probably not nearly so good; and that the cheap telegraph service of England is of the nature of a drain upon the public treasury for the benefit of the comparatively small number of persons who use the telegraph. Detailed comparison of expense per station in England with that in the United States shows a decided balance in favor of the Western Union. Expense per mile of line in England is more than three times as great as with us. It is not by better economy than our own that the English government has cheapened telegraph service. It has done so by not trying to pay interest on capital; which practically amounts to taxing the people for the sake of those who send telegraph messages. Figures which are now brought forward show that this tax is probably greater than has been at some times supposed. It is strongly urged—we cannot say exactly with what degree of proof—that the English telegraph accounts have been so managed as to conceal a much greater deficit than they actually admitted.

At the time when the telegraph was purchased by the English authorities, Mr. Jevons called attention to the dangers connected with the control by government, and especially by a popular government, of any industry involving large expenditures on capital. The matter comes up in this way. Any enterprise like a railroad or telegraph, a factory or gas works, spends some part of its receipts for wages and materials, other parts for repairs, and others again for new construction. The profit or loss is estimated by deducting from the gross earnings the amount spent on wages and materials and in ordinary repairs of plant, but not that spent for new construction. Now the line which divides repairs from construction is a very narrow one. With the best will, it is not always possible to locate it accurately. The temptation is to make the apparent profit larger by charging too little to repairs and too much to capital account; that is to say, by borrowing at the expense

of the future for the sake of apparent present prosperity. Under anything like party government this temptation is vastly increased. It is a popular thing to make low rates and show profit in spite of it ; and the easiest way to do this is by arranging the accounts in such ways as to make that profit at the expense of the future. If the resulting burden falls on a future administration, the mere party leader is perhaps all the better satisfied. If it can be taken out of a present surplus revenue, it forms a most welcome pretext for so doing. The experience of the United States with enterprises involving expenditure of capital shows how dangerous it is to give such power to officials under a partisan administration. Some waste is inevitable ; the amount is usually large. If in the telegraph service of England, which has so long been held as a model, we do not find as good economy as in the much-abused Western Union, what shall we expect in the average business enterprise of popular government as compared with the economy in private hands ?

Instances of liberal policy with doubtful economy on the part of government are so familiar that it is hardly necessary to multiply examples. If a state official is not held to the commercial standard of business success in the narrower sense, there seems to be no check upon waste. But on the other hand, as already shown, if commercial success is made the chief standard, there is no inducement to a liberal policy, but rather the reverse. Perhaps the most fundamental difficulty of government business is the lack of any automatic means of combining commercial economy with commercial liberality. The private company must be managed with a certain amount of economy, or it will lose its capital ; it must be managed with a certain amount of liberality, or competitors will come in and drive it out of the field. Where any remnant of competition exists, this last-named check upon its policy is distinctly felt. Whether it is worth while to adopt an improvement, to make lower charges, or otherwise to enter upon more liberal policy, is determined by the commercial standard. The standard may not always be a just one, but it is fairer than anything which

can be applied to control the industrial enterprise of a government managed solely in the interest of the taxpayers. On the other hand, it is far less dangerous in its ulterior consequences than any attempt to serve various sections of the public in total disregard of expense.

Let it be observed that this is not a general objection to all government authority, but simply to its extension in certain lines of industrial enterprise. In lines less strictly industrial, there may be and are many cases where public policy demands an exercise of government activity, regardless of expense. With increasing population and increase of contact between one man and another, there is an increased necessity for common police regulations which can only be enforced by government. No industrial enterprise has the necessary power of compulsion behind it. In matters of public justice or public health, not to speak of many other somewhat more doubtful cases, a single exception may vitiate the whole result sought. The voluntary action of nineteen persons in providing good sanitary arrangements may be powerless to prevent an epidemic if the twentieth is allowed to do as he pleases. Nothing short of compulsory action can meet the difficulty. The matter of policy is decided on other than business grounds. Cases like this lie outside of the industrial sphere in its narrower sense. They are as clearly within the province of government as matters of the ordinary business of daily life are clearly beyond it. And, on the other hand, there are cases like the lighthouse or hospital service where advantage is sought by the community as a whole, but where no private business enterprise could possibly collect the necessary remuneration. It would be difficult to take toll from the ships which were not wrecked, or from the families for which the burden of death was saved. But where there is an opportunity for anything like voluntary action on the one hand, combined with a chance of collecting a return for the service rendered on the other, the dangers of government management usually outweigh its probable advantages. It would of course be wrong wholly to exclude its possibility, even in such cases. There are matters like docks or water works where the natural

monopoly is such as to be a dangerous power ; where the chance for differences in policy is very great and the chance for bad economy comparatively small. In such cases there is rational ground on which the advocate of state ownership may stand. But where the monopoly is an industrial rather than a natural one, and where government management is sought on account of the complexity of the organization and the individual abuse of organized power in private hands, the facts hardly warrant us in expecting good from the change. The case of the state socialists is not proved by the mere existence of serious abuses under the present system. It is not proved by showing that some of those abuses have been avoided by government action in one case and others in another. It must be shown that there is some practical means of combining liberal policy with wise administration. In the majority of instances this proof is not even attempted. The analysis of cases which we have given will show how strong is the presumption against it in many questions now most actively debated. Until the advocates of state socialism can make good this deficiency in their argument, their attacks upon the existing system must be regarded as criticisms of detail, to be remedied by efforts at detailed control, rather than as grounds for the radical change of system which they thus so strongly urge.

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